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BURMA - KEY ECONOMIC INDICATORS*
(In millions of U.S. dollars unless otherwise indicated.
Fiscal years run April 1-March 30)

| | 1987-88 | 1988-89 (p) | 1989-90 (e) |
|--|-------------|-------------|-------------|
| <u>DOMESTIC ECONOMY</u> | | | |
| Population (millions) | 38.54 | 39.30 | 40.03 |
| GDP at current prices | 10,543 | 11,643 | 16,366 |
| Per capita GDP at current prices (US\$) | 274 | 296 | 409 |
| Consumer price index (1986=100) | 126.5 | 155.0 | 191.7 |
| Money supply (M1, % change) | - 29.1 | 37.5 | 29.6 |
| <u>PRODUCTION AND EMPLOYMENT</u> | | | |
| Employed labor force (in thousands) | 15,813 | 16,036 | 15,221 |
| GDP at constant (1985-86) prices: | | | |
| -- Kyat in millions | 53,178 | 47,096 | 50,562 |
| -- % change | - 4.0 | -11.4 | 7.4 |
| Gov't budget deficit (% of GDP) | 5.8 | 8.4 | 15.0 |
| <u>TRADE AND BALANCE OF PAYMENTS</u> | | | |
| Exports (f.o.b.) | 257.7 | 339.6 | 529.7 |
| Imports (c.i.f.) | 624.0 | 533.1 | 803.9 |
| Trade balance | -366.3 | -193.5 | -274.2 |
| Current account balance | -168.4 | - 94.7 | -161.2 |
| External public debt | 4,185 | 4,233 | 4,104 |
| Debt service payments | 247.3 | 153.8** | 199.3** |
| Debt service ratio (%) | 96.0 | 45.3** | 37.6** |
| Foreign exchange reserves | 55.4 | 127.3 | 468.3 |
| Exchange rate (kyat to US\$1): | | | |
| --Official rate | 6.5159 | 6.4582 | 6.7052 |
| --Open market rate | 42 | 46 | 54 |
| <u>U.S. - BURMA TRADE</u> | | | |
| | <u>1987</u> | <u>1988</u> | <u>1989</u> |
| U.S. exports to Myanmar (f.a.s.) | 7.8 | 10.6 | 4.7 |
| U.S. imports from Myanmar (c.v.) | 11.8 | 11.6 | 17.1 |
| U.S. bilateral aid (grants) | 16.0 | 11.0 | 0.04 |
| Principal U.S. exports (1989): specialized machinery and parts. | | | |
| Principal U.S. imports (1989): apparel, shellfish, gems and pearls, wood products. | | | |

Footnotes: p - preliminary, e - estimate. Data available as of November, 1990.

* This table is based largely on official Burmese statistics, which are subject to substantial later revisions.

** Debt repayments were only partial.

SUMMARY

After mismanaging the economy for 26 years, Burma's socialist government collapsed in 1988 under massive public pressure. The military regime that took its place implemented several economic policy reforms opening the country to private sector trade, foreign investment and natural resource concessions (including onshore oil exploration by U.S. and other foreign companies). Price controls were also partially removed. However, the promise to transfer power to a democratic government has not been fulfilled and additional policy changes needed for real economic progress have not been adopted. Political uncertainty; a vastly overvalued currency and the lack of a comprehensive, clear plan of action will continue to limit economic prospects for some time.

Burma's economy shrank 16 percent during a three-year recession that bottomed out in 1988/89 -- a year of widespread economic and political turbulence. As order was restored and the new open door economic policy adopted, the economy recovered somewhat in 1989/90. Total real output rose an estimated 7.4 percent, with most sectors showing improvement although energy shortages constrained economic activity across the board. Public sector spending rose enormously and the government deficit climbed to \$2.45 billion or 15 percent of GDP. Currency in circulation expanded rapidly and inflation exceeded 40 percent. Burma's basic external financial position is also weak. The trade deficit has been widening, foreign debt arrears mounting and foreign aid inflows shrinking. Although foreign exchange reserves rose to record levels, largely because of special one-time events, central authorities released little foreign exchange for badly needed import purchases.

Lacking the basics for sustained real growth, Burma's near-term economic performance will depend on more immediate factors -- chiefly the availability of rice, energy and foreign exchange. Good weather boosted domestic supplies of rice and other crops in 1990 and should produce even higher supplies for 1991. This will reduce inflationary pressure and allow greater exports. Decontrol of agriculture and foreign trade also stimulated increased planting, bolstered farmer incomes and opened opportunities for new agricultural exports. However, the near-term energy and foreign exchange outlooks remain poor. While new foreign oil company exploration activities in Burma may eventually improve the country's energy situation, even under the best of circumstances it will not reduce critical fuel and electricity shortages for several years. On the foreign exchange front, there are indications that the high reserves built up through early 1990 are already being run down.

Moreover, new export earnings will not meet Burma's non-military import needs, let alone address its growing foreign debt arrears. Major new foreign investments outside the energy sector appear unlikely, given the highly overvalued currency and extreme shortages of fuel and electricity.

U.S.-Burmese trade is small -- under \$30 million per year. With foreign investment allowed only since late 1988, few U.S. companies are active in Burma. They are essentially limited to those engaged in onshore oil exploration under production sharing contracts, subcontracting in the energy sector, a fishing/processing joint venture, beverage production projects, consulting contracts and trade. Official relations between the United States and Burma have been cool since the repressive 1988 military takeover, after which the United States and other major donor countries suspended new foreign assistance. Burma has been decertified as eligible for U.S. aid because of its ineffective narcotics suppression and has been suspended from the United States Generalized System of Preferences program for worker rights violations. The U.S. Executive Branch is now considering its response to an economic sanctions provision approved by Congress in August 1990. Any improvement in bilateral relations depends on the Burmese Government's allowing a more representative political process and taking positive action to improve its human rights and narcotics situation.

II. CURRENT ECONOMIC SITUATION AND TRENDS

Background. From 1962 to 1988, Ne Win's "Burmese Way to Socialism" isolated and impoverished the resource rich Burmese economy. Rigid central planning, inefficient state enterprises, deteriorating infrastructure, inadequate investment, chronic trade and budget deficits and mounting foreign debt were only partly offset by the country's agricultural self-sufficiency and a large and thriving black market. Shortages of fuel and foreign exchange for imports became increasingly serious, weakening nearly every sector of the economy, which fell into recession in 1986/87. Burma's progressive economic decline led in late 1987 to its being designated by the United Nations as a least-developed country eligible for softer foreign aid terms.

The first major loosening of state economic control in decades occurred in September 1987 when the government opened domestic trade in rice and other grains to the private sector. However, the benefits of this welcome change were undercut by a surprise demonetization of all higher value currency notes, without compensation, which wiped out people's cash assets and caused a crisis of confidence in the domestic currency that still persists.

During 1988, economic developments were overshadowed and shaped by a profound national political crisis. Demands for a more democratic form of government mushroomed into a nationwide general strike and massive street demonstrations in August and September. Economic activity was at a near standstill for many weeks, and law and order deteriorated following the government's withdrawal of police and security forces. In mid-September the military took direct control, establishing the State Law and Order Restoration Council (SLORC) as the ruling authority. Thousands of unarmed demonstrators were shot, and the SLORC took severely repressive measures against pro-democracy activists. All foreign aid projects in Burma were stopped for some time after the military takeover, and virtually no new foreign aid has been approved since then.

The SLORC addressed Burma's economic problems by declaring an end to socialism and announcing an open door economic policy under which the private sector could engage in most economic activities. A new foreign investment law allowed foreign investments, including wholly foreign-owned ventures, for the first time in decades. The regime legalized border trade with the People's Republic of China and, de facto, with other neighboring countries as well. The government has granted foreign companies offshore fishing concessions and logging concessions along the Thai-Burmese border, and signed production sharing contracts for onshore and offshore oil exploration by foreign oil companies. A number of other economic policy changes have been announced, with varying degrees of implementation so far.

Economic Performance. (NOTE: The Burmese fiscal year runs April 1 to March 31. In studying the Burmese economy it should be kept in mind that official statistics are unreliable and give a misleading picture of the real economic situation. For example, GDP statistics do not cover extensive open market activity, and the highly overvalued official exchange rate exaggerates the dollar values of GDP and per capita income. Furthermore, official data for 1988/89 and 1989/90 are still preliminary and subject to substantial future revision.)

Burma's economic recession bottomed out in the 1988/89 crisis year when real or inflation-adjusted GDP sank an officially estimated 11.4 percent. The following year, with the national strike ended and basic economic activity resuming, real GDP rose 7.4 percent according to preliminary data. Even so, real GDP was still 10 percent below the pre-recession level of four years earlier. Likewise, although real consumption rose modestly and real investment reportedly surged 55 percent, both remained below 1985/86 levels. Indicating the economic hardship faced by most of the population, 1989/90 real per capita consumption was officially estimated to be 21 percent less than in 1985/86.

Because of heavy inflationary pressures, nominal or unadjusted GDP ballooned during 1989/90, jumping an estimated 46 percent to kyat 110 billion or \$16.4 billion at the official exchange rate. Using this estimate, the per capita income of Burma's 40 million people was \$409.

Production in the key agricultural sector, which represents 40 percent of total GDP, reportedly rose 13.3 percent in 1989/90 after a 13.2 percent drop the prior year. However, based on observed production of rice (by far the most important crop) the output changes reported for those two years appear to be overstated. The agricultural situation in both years was confused by uneven decontrol of farmgate prices and foodstuff distribution, the negative effects of the 1987 demonetization, the 1988 disturbances and their aftermath, heavy handed government interventions in marketing, and wildly fluctuating food prices.

The performance of other rural sectors in 1989/90 was mixed. A scarcity of feedstuffs caused serious across-the-board declines in breeding of livestock and poultry. Consequently, output of meats, dairy and other livestock products fell by 20 percent or more. Boosted by the granting of offshore fishing concessions to foreign companies, Burma's fish production rose an estimated 7.7 percent to a record level. Foreign concessions, chiefly to Thai companies for logging in border areas, also stimulated forestry production. Concession activity, together with strong domestic and foreign demand, led to an estimated 34.2 percent surge in total forestry output. However, both the fishing and logging concessions have raised questions of potential resource depletion, particularly for teak which has been overcut for the better part of a decade.

Burma's small processing and manufacturing sector produced an estimated 12.3 percent more in 1989/90, with all subsectors except electrical goods reporting output increases. Nonetheless, fuel, machinery and materials shortages continued to plague both state and private enterprises, and sectoral production remained 16 percent below the level of four years earlier. The many state-owned enterprises could not improve their chronically low capacity utilization, stuck at well below 40 percent. The mining sector reported growth of 14.5 percent -- only a partial recovery from the severe disruption suffered during 1988. In the critical energy subsector, crude oil output rose but still reached just half the 1985/86 rate, forcing continued tight nationwide fuel rationing. Production of natural gas, which generates about half the country's electricity and had expanded rapidly in the mid-1980s, failed to regain its 1987/88 peak.

A construction boom began in 1989/90 because of regime projects to widen roads, beautify towns, and forcibly resettle hundreds of thousands of urban residents to new, undeveloped locations. Overall construction activity surged an estimated 33.5 percent. The power sector grew by a reported 19 percent with installed generating capacity up and power losses cut back. Transportation activity, hampered by fuel rationing and shortages of vehicles in working condition, regained only half the momentum lost in 1988/89. Communications and administrative services rose very modestly, while financial services shrank 86.5 percent due to the government write-off of the state-owned enterprises' massive domestic debts.

Fiscal and Monetary Developments. With state-owned enterprises dominating almost all economic activities, the government plays a very large role in the Burmese economy. In fact, overall public sector spending has equalled about 46 percent of total GDP over the last three years. In 1989/90 higher charges for state and municipal services raised total public sector revenues to \$5.3 billion, slightly above the targeted level. At the same time, expenditures rose enormously because of a huge wage increase for government employees and massive spending on construction projects. A special supplemental budget law was needed to cover the increase, bringing total public expenditures to \$7.75 billion -- one third more than the original target. The overall government deficit soared to an estimated \$2.45 billion or 15 percent of nominal GDP.

Government deficits are financed mainly by borrowing from the state banking system and, ultimately, by printing additional bank notes. In the two and a half years following the September 1987 demonetization, currency in circulation tripled, exacerbating inflationary pressures. During 1989/90, inflation was also aggravated by the large wage increase, government interventions in food markets, and shortages of fuels, construction materials and other goods. The GDP price deflator rose 36 percent but observed inflation was substantially higher.

The External Sector. Government data show foreign trade expanding greatly in 1989/90, with exports up 62 percent to \$530 million and imports rising 56 percent to \$804 million. However, that increase was more apparent than real because large, formerly illegal border trade flows only began to show up in official statistics after their late 1988 legalization. The actual increase in trading activity was much less. Forestry products, mainly logs, were the largest single foreign exchange earner (about one-third of total exports), with the remaining legal exports being mostly foodstuffs and other unprocessed goods. Illegal and undocumented exports of narcotics (Burma is the world's largest opium producer),

gems and jade were substantial. Rice, once Burma's chief export, was of only minor significance in both 1988/89 and 1989/90. On the import side the majority of goods were probably capital equipment plus light consumer goods from neighboring countries. Burma's chief export markets were China, India and Thailand, while its most important import sources were Japan and China.

Burma's highly overvalued official exchange rate -- now 5.9 kyat per U.S. dollar versus about 70 to 1 on the open market -- was not corrected last year. In an attempt to reduce the exchange rate bias against exports, the regime required private traders to export as much as they imported, and stipulated that the China border trade be on a balanced barter basis. However, the public sector's imports exceeded its exports, and in practice Burma probably ran a deficit on border trade as well. Consequently, Burma's chronic trade deficit persisted and in fact worsened to a reported \$274 million in 1989/90.

Burmese authorities estimated Burma's total foreign debt at the end of 1989/90 as \$4.1 billion (long term, disbursed). Although most of the debt is highly concessionary, Burma's weak trade position made debt servicing difficult and arrears began to build up in 1988. Total arrears reached roughly \$300 million at the end of 1989 and have grown further since. Concurrently, foreign exchange reserves mounted -- largely through a series of one-time transactions including a major Tokyo property sale -- to reach a record high of \$560 million in early 1990. However, with a large trade deficit, heavy arrears, and foreign aid inflows progressively shrinking since the late-1988 suspension of new aid by most foreign donors, Burma's external financial position at the end of 1989/90 was not strong.

Outlook for 1990/91 and Beyond. The process of economic liberalization in Burma has so far been largely ad hoc. Presenting itself as a temporary government, the military regime has not developed an overall economic policy package or longer term development plan. Regime statements since the May 1990 national elections, which gave the major opposition party an overwhelming victory, indicate that any change in government is still several years away. The government's failure to respect the election results, curb serious human rights violations, address its bilateral debt arrears, or adopt essential economic reforms precludes multilateral action on debt restructuring and foreign aid resumption. Absent political stability, renewed foreign assistance and further economic reforms, significant economic progress does not appear likely.

In the near term, Burma's economic fortunes will depend on more immediate factors -- chiefly the availability of rice, energy and foreign exchange. Rice, the staple food and by far the country's most important crop, was plentiful in 1990 and should be even more abundant in 1991 after an expected record harvest due to excellent weather. The large projected rice surplus for 1991 should ease inflationary pressures somewhat and provide the option of substantially higher rice exports. After two very difficult years, higher farmgate prices to boost farmer incomes and reduced government intervention in food markets brought comparative agricultural stability in 1990. Those factors look set to continue into 1991. However, given very limited irrigation, rural investment, fertilizers and other inputs, the agricultural sector remains overly dependent on the vagaries of weather. Significant sustainable output increases are unlikely until additional capital can be attracted for more inputs and investment.

The domestic energy situation worsened further in 1990. Gasoline rationing was tightened, natural gas output probably fell, and formerly energy self-sufficient Burma imported crude oil for the third year in a row. While Burma's long-term energy outlook could be immensely improved if foreign companies strike oil, the long lead times to actual production promise no relief from severe energy shortages for several years. Inadequate fuel and electricity raise costs, hamper production and commerce across the board, and present major obstacles to new investment.

SLORC policies affecting trade have not dealt with the country's severe foreign exchange constraints, which limit badly needed imports for most sectors of the economy. Despite record highs in foreign exchange reserves in early 1990, the government has kept a tight grip on foreign exchange for non-military imports. The Finance Minister announced recently that the government will not alter the exchange rate, and regime insistence on a highly overvalued currency will perpetuate trade distortions and discourage capital inflows from foreign investment. As the SLORC does not appear prepared to address the concerns of foreign donors, foreign aid inflows -- which used to finance the bulk of the country's imports -- are likely to continue shrinking.

On other economic fronts, heavy deficit spending will probably persist. Changes in tax provisions and duties from higher legal trade flows may raise revenues to some extent, but factors that could restrain expenditures by the huge state sector are not apparent. With government deficits financed mainly by printing money, inadequate fiscal restraint will provide continued inflationary pressure. Except for rice, Burma remains an economy of scarcity subject to strong price pressures. (With no wage indexation and no labor unions, wages are not an inflationary factor except when sporadic government raises are awarded.)

III. IMPLICATIONS FOR THE UNITED STATES

Bilateral Relations. Until the September 1988 military takeover, the United States maintained a very modest foreign assistance program in Burma. Total U.S. grant aid to Burma in U.S. fiscal year 1988 (October to September) was \$11 million, covering development assistance, anti-narcotics aid and military training. Since the takeover, official relations between the United States and Burma have been cool because of U.S. criticism of the military regime's serious human rights abuses and political repression. In late 1988, the United States suspended all non-humanitarian aid to Burma and in March 1989 decided not to certify Burma as eligible for U.S. foreign assistance because of lack of cooperation on anti-narcotics matters. In April 1989, the United States suspended Burma's eligibility for duty-free export to the U.S. market under the Generalized System of Preferences (GSP) program because of the lack of internationally recognized worker rights in the country. A provision of the 1990 Customs and Trade Act calls for economic sanctions against Burma under certain circumstances; as of late November the Administration had not announced what action would be taken.

The U.S. Government hopes for an early resolution of strains in the bilateral relationship and a return to closer relations that would benefit both countries. Progress toward the formation of a government which meets the Burmese people's aspirations for democracy, the restoration of basic human rights, and meaningful cooperation in drug eradication efforts would permit a resumption of friendly bilateral ties.

Outlook for U.S. Business. Never large, U.S. exports to Burma fell to just \$4.7 million in 1989 (mostly specialized equipment), chiefly because of Burma's chronic foreign exchange problems. However, in the first nine months of 1990, U.S. sales rose again to \$15.2 million, reflecting some recovery in Burmese economic activity. Near-term prospects for U.S. exports remain limited mainly by the restricted availability of foreign exchange for import purchases. Local private sector entities have no foreign exchange except what they can earn by exporting, and state-owned enterprises depend on scarce foreign exchange allocations from the central government.

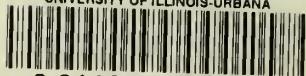
The opening up of the energy sector to foreign oil company exploration presents opportunities for subcontracting of a wide range of supplies, support and technical services. Potential U.S. suppliers of goods and services for oil and gas exploration and development should contact concession companies and the Myanma Oil and Gas Enterprise directly to inquire about possible sales. The Burmese Government is also interested in improving the state-owned telecommunications system, which may present opportunities for U.S. sales.

Other prospects for U.S. export sales in the near term are through open competitive tenders for Burmese Government procurement of equipment, supplies and consulting services -- especially those associated with projects funded by the Asian Development Bank, International Development Association (a World Bank affiliate), and the United Nations Development Program. These tenders are reported by the Embassy and published by the U.S. Department of Commerce in the "Economic Bulletin Board" and the "Commerce Business Daily." The district offices of the Commerce Department also receive daily leads and have them on file for the public. Because of the tight foreign exchange situation, state enterprises and the private sector are very interested in countertrade deals, and proposals of this type would be seriously considered.

On the import side, U.S. imports from Burma rose to \$17.1 million in 1989 (largely apparel, shellfish, gems and pearls, and wood products) and reached \$18.6 million in the first nine months of 1990. The denial of GSP benefits to Burmese products has not affected most U.S. imports -- Burmese goods entering the United States under the GSP program in 1988 were valued at less than \$250,000. However, future Administration action under the Burma sanctions provision of the 1990 Customs and Trade Act could potentially affect U.S. imports from Burma. Importers of Burmese goods should also be aware that the U.S. Customs Service requires that the name "Burma" be used for the purpose of identifying country of origin on U.S. Customs forms.

Potentially broad scope for U.S. investment is provided by Burma's new laws on foreign investment. Foreign investment may be wholly foreign-owned or -- with minimum 35 percent foreign ownership -- be in joint ventures with local private companies, state-private sector joint venture corporations, or state-owned economic enterprises. In certain sectors, such as oil and gas or metal mining, a foreign investment must take the form of a joint venture with a state-owned enterprise. Buy-back arrangements are another option; many existing and underutilized production facilities could be upgraded by a foreign partner to produce for export on a buy-back basis.

Foreign investors are generally required to pay local staff salaries, rents, telephone and utility charges in foreign currency. Foreign currency conversions to pay kyat-denominated local expenses must be made at the official exchange rate, which is grossly overvalued and inflates the total cost of doing business in Burma. With the exception of production sharing contracts in the energy sector, most ongoing foreign company activities here involve fishing or logging concessions, buy-back or trade-based ventures.



Assistance to U.S. Business. Country specialists for Burma in the Departments of Commerce and State in Washington are valuable initial sources of information on business conditions and possibilities. Interested U.S. companies may also correspond directly with the Commercial Attaché of the U.S. Embassy in Rangoon (Yangon) (Box B, APO San Francisco, CA 96346; telex: 21230 AMBYGN BM). The Commercial Section can assist U.S. companies in the tender process by purchasing and forwarding government tender documents on request to help U.S. firms meet the short deadlines generally given. Business visas should in most cases be arranged directly through Burmese Government agencies or companies, but the Commercial Section will attempt to assist as needed. Visitors to Burma are welcome to contact the Commercial Section, which will arrange meetings with appropriate Embassy personnel to discuss business conditions and their business interests. U.S. firms interested in promoting their products in Burma can participate in trade promotion events held in Rangoon and should contact the nearest district office of the Department of Commerce for information.

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